

## Suggested Legislation

A Modus Vivendi, by Senator Francis G. Newlands

The unrest and business disturbance of the country are due to uncertainties regarding the tariff and the three branches of interstate commerce—transportation, or the railroads; trade, or the trusts; and exchange, or the banks. The discord between the progressive and reactionary factions of the republican party preclude partisan determination of these questions at this session, and the division of responsibility in the next congress—the house being democratic and the senate republican—will preclude partisan determination during the next two years.

Is it not possible, therefore, to provide a modus vivendi which will involve the immediate adoption of such changes in existing law as are not inconsistent with the party principles of either party, leaving to the congress and administration elected in 1912 the determination of purely partisan considerations? In other words, can we not substitute business for partisan legislation during the next two years?

I make the following suggestions as a basis of a business-like modus vivendi which will lead gradually and progressively to reform of existing abuses, without radical readjustments.

### I.

#### THE TARIFF

Of all these questions the tariff alone presents distinctively partisan considerations—the basic idea of the democratic party being revenue, that of the republican protection; the former involving incidental, the latter designed, protection of American industries. The republican party has declared that the standard of protection shall be the difference in the cost of production at home and abroad, with a fair profit to the manufacturer added; the democratic party favors a gradual reduction of duties to a revenue basis, to be accomplished without risking a flood of foreign importations to the injury of American industries. It is believed that many existing duties are far above the standard fixed by either party; if so, both parties should unite in their reduction. If the revenue duty on a particular commodity would be thirty per cent, the protective duty would be forty per cent, and the existing duty is fifty per cent, there is no reason why both parties should not agree to a reduction to forty per cent.

I would, therefore, suggest the following:

One—Provide for a non-partisan tariff commission, with powers and functions similar to those of the interstate commerce commission, including the power of investigation and of recommendation to the president and to congress, and the power, after hearing, upon the complaint of importers or upon its own initiative, to condemn a duty as excessively high, judged by the standard or rule fixed by congress; such standard for the present to be the difference in the cost of production at home and abroad, with a fair profit to the manufacturer added.

Two—Provide that when the commission finds that any duty is in excess of the standard fixed by congress, such duty shall be gradually reduced to such standard by executive order in two or more annual installments. Give the president, upon the finding of the tariff commission that the effect of the lowering of any duty has been to increase importations under it ten per cent, the power to arrest such reduction and report to congress, thus providing a safety brake, which will prevent possible alarm as to a flood of importations to the injury of existing American industries.

### II.

#### TRANSPORTATION

Transportation is divided into two branches, state and interstate; the former subject to the regulation of state sovereignty, the latter of national sovereignty, whether conducted by corporate agents of state or national creation. The regulation of railroads, therefore, involves the action of two distinct sovereignties, and it is desirable to provide for harmonious relations in the exercise of their respective powers. As a means to this end—

One—Provide by national legislation for consultation and co-operation between the interstate commerce commission and the state railroad commissions.

Two—Give the interstate commerce commission the power to make a valuation of the rail-

roads, and to control the stock and bond issues of all corporations engaged in interstate transportation.

This does not imply the denial to the states of similar powers. The origin of the corporation, whether national or state, makes no difference; it is the fact of agency upon which each sovereignty operates—the national sovereignty as to interstate transportation and the state sovereignty as to the state transportation. If a corporation, national or state, proposes to engage in both forms of transportation, it must yield to the direction and control of both sovereignties, each within its jurisdiction. Co-operation between the interstate and the state commissions would probably result in harmonious regulation.

Three—Prevent the organization, under state laws, of corporations or holding companies designed to combine state corporations for purposes of interstate transportation. Provide for the organization of such holding companies under national law, subject to the approval and control of the interstate commerce commission.

### III.

#### INTERSTATE TRADE

Organize a commission of interstate trade, with powers similar to those given to the interstate commerce commission for the regulation of interstate transportation, including the powers of examination, investigation, recommendation, and condemnation. Turn over to such commission the administration of the anti-trust act, and provide that where competition ends regulation shall begin, as to all matters of interstate trade. Establish the principle that all monopolies shall be compelled in interstate trade to sell to all at the same price and to all at a reasonable price, and give such commission the power to prevent discriminations, to condemn unreasonable prices and unfair practices, and to enforce its decisions as to interstate trade.

### IV.

#### INTERSTATE EXCHANGE

The national government has the same power over interstate exchange, as a branch of interstate commerce, as it has over interstate transportation, whether conducted by corporations of state or national creation. So far, therefore, as interstate exchange is concerned, it has the power to regulate both state banks and national banks, with a view to the maintenance of an unimpeded and uninterrupted exchange between the states. Many of the banks of the country have lost sight of their primary function, which is to promote exchange, and have turned themselves into mere agencies of promotion and speculation. This is pre-eminently true of the great banks of New York, state and national, which have been accustomed to draw to themselves the reserves of country banks, use them in promotion and speculation, and then refuse their return when needed for such high national purposes as the movement of crops. This practice has been the fruitful source of stringencies and panics, which have arrested the commerce and transfers of products between sections and states. The nation has as perfect a right to arrest this pernicious practice upon the part of both state and national banks as it would have the power to arrest the practice, if it existed, of the railroad corporations of New York drawing to that region the freight cars of other sections, utilizing them as storage warehouses, and then refusing their return to the various sections and states when needed for the purposes of carrying products. It is necessary, therefore, that national regulation as to such matters should be imposed upon both state and national banks. The failure of a state bank may at any time impair a link in the chain of exchange and may lead to a general paralysis of exchange between the states. The national government should, therefore, see to it that all agents of interstate exchange, whether incorporated by the nation or the states, should have adequate capital and adequate reserves, so as to guard against the paralysis of interstate exchange.

Business legislation, therefore, can be devised with reference to these two questions, as well as to a method of unionizing all the banks for mutual protection in time of stress. Such legislation need not be either auxiliary to or preventative of future legislation relating to a central bank. It leaves that question to be determined in the future according to party view and party supremacy.

With a view, therefore, to business legislation, the following suggestions are made:

One—Establish at least one reserve city in each state in the union.

Two—Provide that reserve city banks, na-

tional or state, engaged in interstate exchange, shall maintain a reserve of twenty-five per cent of their deposits. Require them to keep in their vaults at least two-thirds of such reserve, giving them the power to deposit one-third only in central reserve city banks, instead of one-half as at present. The increase in such cash reserves to be made gradually, within a period of five years, under the direction of the comptroller of the currency.

Three—Similarly require the country banks, national or state, engaged in interstate exchange, to maintain a reserve of fifteen per cent of their deposits, and require them to keep in their vaults at least two-thirds of such reserve, instead of two-fifths as at present.

Four—Require all banks engaged in interstate exchange, whether national or state, to have and maintain adequate capital, equal to at least twenty per cent of deposit obligations.

Five—Provide for a national currency association in each state, in which every bank, national or state engaged in interstate exchange, shall be a stockholder, giving such association the power to examine the banks composing its membership, and to enter into mutual arrangements for protection, and power to issue emergency currency, upon which such a rate of interest shall be paid the government as will compel its retirement when the emergency is over.

Six—Provide that such national currency associations shall each select a representative to a bankers convention, to be held annually, which convention shall select an advisory banking commission of five members, to be chosen from the several sections; such commission to meet and organize at Washington, with a chairman and a secretary, and to have the power of advice and recommendation to the president and the congress of the United States.

### V.

#### ECONOMICAL AND EFFICIENT CIVIL ADMINISTRATION

Divide the government accounts under two heads—administration and construction—and separate both the estimates and the appropriations under these two heads, so that the operating expenses of the government can be separated from capital account.

### VI.

#### ECONOMICAL AND EFFICIENT ADMINISTRATION OF THE ARMY AND NAVY

As the great want in time of war is a sufficiency of trained officers to put into shape newly recruited troops, and as the average annual cost of a soldier is about \$1,000 and that of an officer is about \$2,500, and as the efficiency of a trained officer in the mobilization of an army in case of war is vastly greater than that of a trained soldier, diminish the number of soldiers and increase largely the number of officers to be trained at West Point. Utilize such officers after graduation in training the militia, and hold them in reserve at moderate salaries for active service during war.

Similarly increase the appointments to the naval academy, and utilize the officers not needed on the fighting ships in the training of the naval reserves.

Create a well proportioned navy by diminishing temporarily the construction of fighting ships, wholly inefficient in time of war without the auxiliary ships, such as transports, colliers, and scouts, and build as a part of the navy such auxiliary ships to be used in time of war to support the fighting ships, and to be used in time of peace as training schools for the naval reserves, leasing such ships, manned in part by the naval reserve, in time of peace to commercial companies for the purpose of opening up new routes of commerce for American products. This as a substitute for proposed ship subsidies.

### VII.

#### WATERWAYS, CO-OPERATION WITH STATES

Authorize the president, by the appointment of a board or boards, to bring into co-operation with the engineer corps of the army the various scientific and constructive services of the United States in the formation of plans for the development and control of the rivers and waterways of the United States for every useful purpose, including, in addition to navigation, the reclamation of arid and swamp lands, the prevention of floods, the regulation of flow, the utilization of water power, the prevention of erosion and soil waste, the preservation of forests and forest

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